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POTENTIAL TAX CHANGES TO FEDERAL RETIREMENT ANNUITIES

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There have been recent articles in Mike Causey's column in The Washington Post reporting that the House of Representatives is considering an Administration tax reform proposal affecting future retirees. Mr. Causey's first column gave the impression that Congressional action was imminent and could possibly be enacted before the end of the year. More recent action in the House Ways and Means Committee has changed this proposed date to mid-year 1986.

The House proposal would make all retirement annuities, including Federal annuities, subject to immediate Federal income taxation upon retirement, rather than the current system which allows a tax-free period on annuities until the retiree's contributions to the retirement fund are recovered. The proposal under consideration would prorate the contributions over the life expectancy of the retiree. While the House is currently considering the tax reform proposals, the Senate is unlikely to take up the issue until next year. In fact this proposal must still be considered by the full House, the appropriate Senate Committee and the full Senate.

As evidenced by the above, tax reform has a way to go before being passed, if at all, and thus the impact on taxing retirement benefits and an effective date remain open to much more discussion and debate. As with any tax issue, the proposal to change how retirement annuities are taxed is complex. Many of the other tax proposals related to investment income, changes of tax brackets, etc., also will impact on a retirees tax base. With tax legislation as involved as this and with its many facets, it is impossible to predict with any certainty the exact outcome. This is a fluid situation and further modification could be made not only to the proposal but to the effective date, at anytime.

We realize that employees are anxious to know as much as possible about this proposal. Because of the complexity of the issue, we are attempting to sort out the various aspects and will provide the particulars as soon as possible. That way, employees can truly assess its full impact on their specific circumstances.

The Office of Legislative Liaison and the Office of Personnel are following this subject on a daily basis. We will advise employees immediately, if there is any change in the status affecting retirement-qualified employees.

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